

REQUIRES MONITORING  
OR STAFF ACTION\_\_\_\_\_

### COMMISSION DIRECTIVE

ADMINISTRATIVE DEPT. \_\_\_\_\_

DATE December 15, 2004

TRANSPORTATION DEPT. \_\_\_\_\_

DOCKET NO. 2004-178-E

UTILITIES DEPT. XXX

ORDER NO. 2005-2

#### SUBJECT:

DOCKET NO. 2004-178-E – South Carolina Electric & Gas Company – Application for adjustments in the Company's electric rate schedules and tariffs. Hearing held: November 1, 2004. Proposed Orders have been filed. Order deadline: January 2, 2005. This matter is ready for final disposition.

#### COMMISSION ACTION:

##### Disposition of Hearing Motions and Other Legal Matters

At the beginning of the hearing, SCE&G moved into the record, as Hearing Exhibit One, a Stipulation and Settlement of the Commission Staff and SCE&G with written concurrences of the South Carolina Energy Users Committee, SMI Steel – South Carolina, and Wal-Mart. Columbia Energy objected to the entry of this exhibit into record, as Hearing Exhibit One. ***IMOVE*** that the Stipulation be entered into the record as a declaration of the parties of record as was supported by the pre-filed testimony of the Commission Staff and the Company and is available to the Commission for consideration as a compromise resolution of issues.

PRESIDING Mitchell

CLYBURN Yes FLEMING Yes HAMILTON Yes

HOWARD Motion MITCHELL Yes MOSELEY Yes

WRIGHT Yes

Regarding SCE&G'S motion to strike all outside correspondence from persons who are not parties to this case from the record, ***IMOVE*** that the content of these letters are hearsay and should be stricken from the record.

PRESIDING Mitchell

CLYBURN Yes FLEMING Yes HAMILTON Yes

HOWARD Motion MITCHELL Yes MOSELEY Yes

WRIGHT Yes

Due to the complex and technical issues in this case and the interruptions caused by the year-end holidays, ***IMOVE*** that the Commission extend the six-month deadline for issuing the order by five days, pursuant to S.C. Code Annotated Section 58-27-870 (C).

PRESIDING Mitchell

CLYBURN Yes FLEMING Yes HAMILTON Yes

HOWARD Motion MITCHELL Yes MOSELEY Yes

WRIGHT Yes

#### Stipulation/Settlement Agreement

The Commission wishes to note the effort expended by the Commission Staff, SCE&G and other parties to work toward a settlement in this docket. Such settlements are encouraged in the recently enacted legislation restructuring the Public Service Commission under which the Commission now functions. However, the Commission wishes to note that not all parties agreed to the settlement. In addition, it is incumbent on this Commission to carefully analyze each provision of such a stipulation/agreement to insure that the appropriate balance is struck between shareowner, company and consumer

interests. This particular settlement was troublesome in that the Consumer Advocate was not a party, and insufficient time was available for consideration of certain intervenor testimony in reaching the settlement agreement. Even had all parties agreed to the settlement, the Commission does not believe it is bound by the statute to accept the agreement without analyzing the agreement for its impact on each stakeholder.

### Return on Equity / Cost of Capital

**IMOVE** that the allowable return on equity be the range between 10.40 percent and 11.40 percent, with rates to be established based on a return on equity of 10.70 percent. This range for return on equity with rates set at a point in the lower end of that range fulfills the Commission's legal responsibility to balance the interests of consumers, SCE&G, and its shareowners. The range in return on equity was found reasonable by signatories to the Stipulation and Settlement Agreement who represent a broad cross-section of stakeholders. The range takes into account the impact of currently increasing interest rates from some of the lowest on record, and the potential for understating the return on equity (risk) of the Discounted Cash Flow analysis and the Capital Asset Pricing Model methods for valuing assets and their risks. The return on equity for setting rates is within the Capital Asset Pricing Model and Discounted Cash Flow return on equity calculations of Commission Staff witness Labros E. Pilalis, is at the lower end of the allowed return on equity range, and is believed to be adequate to preventing a downgrade in credit ratings by rating agencies when viewed in the context of the allowed return on equity range. The parties agreed that the appropriate capital structure as of August 31, 2004, consisted of 46.96 percent long-term debt, 2.73 percent preferred stock and 50.31 percent common equity. Embedded costs for long-term debt and preferred stock were 6.56 percent and 6.40 percent, respectively. At a 10.70 percent cost of common equity (return on equity), the resulting cost of capital (return on rate base) for rate setting purposes is 8.64 percent.

PRESIDING	<u>Mitchell</u>			
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>	HAMILTON <u>Motion</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY <u>Yes</u>
WRIGHT	<u>Yes</u>			

### Jasper Generating Station

**IMOVE** to include the balance of the cost to build the Jasper Generating Station (approximately \$230 million) in rate base. SCE&G justified the 875 megawatt plant size during the siting case in Docket No. 2001-420-E (Order No. 2002-0019). SCE&G was prudent to enter into a contract with the North Carolina Electric Membership Corporation for the sale of 250 megawatts of capacity and a later contract for 100 megawatts in order to take advantage of economies of scale available to build a larger plant than needed at that specific moment in time. Proceeds from the power sale to the North Carolina Electric Membership Corporation are flowing back to the benefit of SCE&G's South Carolina electricity consumers. SCE&G witness Dr. Joseph M. Lynch's testimony of the \$180 million over 20 years benefit to South Carolina consumers reinforces the prudence of the plant size decision and notes that the capacity contracted for with the North Carolina Electric Membership Corporation is recallable should SCE&G's South Carolina native load customers need that power. Had SCE&G built only the size plant needed to maintain their reserve margin within their reasonable range of 12-18 percent, they would have been required to find another generation source as early as next year, when construction costs may have been higher and the opportunity to take advantage of economies of scale would not be available.

PRESIDING	<u>Mitchell</u>			
CLYBURN	<u>Motion</u>	FLEMING	<u>Yes</u>	HAMILTON <u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY <u>Yes</u>
WRIGHT	<u>Yes</u>			

### GridSouth Costs

**IMOVE** to allow SCE&G to amortize the requested \$14 million of GridSouth startup costs over a five-year window, which roughly corresponds with the duration of activity on that initiative, but disallow inclusion of any of the GridSouth startup costs in rate base. SCE&G and the other GridSouth partners were trying to achieve a solution consistent with Federal Energy Regulatory Commission requirements at that time, but also to retain as much local control of utility transmission assets as possible. The North Carolina and South Carolina Commissions had voiced public opposition to forced Regional Transmission Organization participation during that period. At that time, SCE&G, and the other GridSouth participants, were subject to the Federal Energy Regulatory Commission mandate to participate in a Regional Transmission Organization or Independent System Operator by October 15, 2000, or inform that Federal agency why they

could not. The Public Service Commission of South Carolina was informed of what SCE&G was doing and the Commission never required the Company to stop participating in the Regional Transmission Organization. I agree with SCE&G witness Dr. Julius A. Wright's testimony that GridSouth costs were prudently incurred based on what SCE&G knew at the time.

PRESIDING	<u>Mitchell</u>		
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>
WRIGHT	<u>Yes</u>	MOSELEY	<u>Motion</u>

### NERC Staffing

**I MOVE** to disallow inclusion of any costs associated with resources or assets related to implementation of the North American Electric Reliability Council reliability standards. Since the North American Electric Reliability Council has not finalized its standards, the nature and level of expenses to be incurred to meet anticipated new North American Electric Reliability Council reliability standards are simply not known and measurable at this time. This is consistent with the Commission Staff's position on this proposed adjustment.

PRESIDING	<u>Mitchell</u>		
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>
WRIGHT	<u>Yes</u>	MOSELEY	<u>Motion</u>

### Selective Catalytic Reduction Costs (Environmental Compliance)

**I MOVE** to accept SCE&G's request to increase expenses for costs associated with the use of ammonia in three new Selective Catalytic Reactor units at the Wateree and Williams Stations. This equipment was required to meet federal and state air quality regulations.

PRESIDING	<u>Mitchell</u>		
CLYBURN	<u>Yes</u>	FLEMING	<u>Motion</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>
WRIGHT	<u>Yes</u>	MOSELEY	<u>Yes</u>

### Coal Inventory

**I MOVE** to adopt the Commission Staff's and the Company's proposed adjustment to coal inventory of \$12.339 million per Staff Witness Sharon Scott's testimony (Page 18) since the test year coal inventory was abnormally low due to a tight coal market and difficulties in rail transportation, and the prices used by the Company in their application are known and measurable, and appear reasonable. This adjustment increases the test year booked coal inventory to its historic average level by pricing the inventory at today's known and measurable strip coal mine prices and existing long term contract.

PRESIDING	<u>Mitchell</u>		
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>
WRIGHT	<u>Motion</u>	MOSELEY	<u>Yes</u>

### Turbine Maintenance

**I MOVE** to adopt SCE&G's request to levelize estimated maintenance costs over an eight-year period with provision for booking the difference between actual costs and the level allowed in rates, subject to further orders of the Commission. If SCE&G had signed a maintenance contract at \$10 million, (Transcript Volume 1 of 5, Page 338, Line 4 and following) the contract amount would have been included in O&M expenses if deemed prudent. Turbine maintenance will be required and costs are known and measurable based on detailed engineering plans and maintenance procedures. The Company will file a report concerning the results of this treatment at the end of calendar year 2007. While Commission Staff originally proposed a four-year levelization, Staff agreed to the eight-year period in the Stipulation and Settlement Agreement.

PRESIDING	<u>Mitchell</u>		
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>
		HAMILTON	<u>Yes</u>

HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Motion

### Jasper Fixed Capacity Charges

**IMOVE** to allow recovery of Jasper's fixed capacity charges in base rates consistent with SCE&G's request. This treatment of the fixed capacity charges is consistent with the treatment of such costs already approved for SCE&G's Urquhart plant (Transcript Volume 2 of 5, Page 714, Line 13 and following). In addition, the Commission has ruled in Docket 2004-2-E (order forthcoming) that SCE&G was prudent in its fuel purchases for the period covered. Should the Commission in any way revise its decision regarding recovery of any part of these costs, ramifications of that decision will immediately be reflected in the Company's fuel clause calculations. (Walker rebuttal Page 10). The Commission believes SCE&G's decision to take advantage of economies of scale when building the Jasper plant was prudent and the capacity charges to provide fuel to the plant should be recoverable.

PRESIDING Mitchell  
 CLYBURN Motion FLEMING Yes HAMILTON Yes  
 HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Yes

### Moving Expenses

**IMOVE** to accept the actual moving expenses incurred in the test year as proposed by SCE&G.

PRESIDING Mitchell  
 CLYBURN Yes FLEMING Yes HAMILTON Yes  
 HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Wright

### Salary Increases and Bonuses

**IMOVE** to adopt the position of the Consumer Advocate which eliminates 50 percent of all incentive pay from rate base, resulting in a sharing of incentive pay between ratepayers and shareowners, all of whom benefit from achievement of well-crafted incentive goals.

PRESIDING Mitchell  
 CLYBURN Yes FLEMING Yes HAMILTON Yes  
 HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Wright

### Other Accounting Issues (Includes Depreciation)

**IMOVE** to adopt all other adjustments included in the Commission Staff's Report, and the support thereof, including the related income tax affects.

PRESIDING Mitchell  
 CLYBURN Yes FLEMING Yes HAMILTON Yes  
 HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Motion

### Cost of Service / Rate Design

**IMOVE** to accept the cost of service study submitted by SCE&G and the rate design as proposed by the Company. The Company's proposed rate design, which moves rates closer to the cost of serving specific customer classes, has merit. Furthermore, the proposed rate design was not challenged by any party to this docket. Therefore, **IMOVE** that the level of rate increase allowed in this series of motions be allocated to customer classes in the same proportion as the Company requested the increase to customer classes.

PRESIDING Mitchell  
 CLYBURN Yes FLEMING Yes HAMILTON Yes  
 HOWARD Yes MITCHELL Yes MOSELEY Yes  
 WRIGHT Wright

### Rates and Tariffs

With respect to other rate and tariff matters which are included in this docket, ***I MOVE*** the following dispensations:

- *Increase in Reconnection Fee* – Accept increase as requested since no party contested the increase, SCE&G's cost study indicates the actual reconnection cost to be above \$30 and the Commission Staff supports the increase.
- *New Economic Interruptible Service Rider* – The Commission concurs with the position agreed to by the parties in the Stipulation and Settlement Agreement to withdraw this request.
- *Increased Rates and Charges on Certain Contracts* (Real Time Pricing program not to be affected) – The Commission concurs with the position agreed to by the parties in the Stipulation and Settlement Agreement to withdraw this request.
- *Collection of Deposits from Non-Residential Customers* – The Commission concurs with the position agreed to by the parties in the Stipulation and Settlement Agreement to withdraw this request.
- *Imposition of Reconnection Charge* – Deny imposition of a reconnection charge if SCE&G goes to a customer's premise but cannot reconnect because of actions taken by the customer. No evidence was presented that this situation is a serious problem for SCE&G. In addition, the Commission Staff recommends denial of the request.

PRESIDING	<u>Mitchell</u>			
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>	HAMILTON <u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY <u>Yes</u>
WRIGHT	<u>Motion</u>			

### Lake Murray Dam

I want my motion to reflect my thanks to SCE&G for their innovative use of certain tax credits to offset their expenses to reinforce the Lake Murray Dam. The dam reinforcement, ordered by the Federal Energy Regulatory Commission, could have conceivably cost South Carolina ratepayers an additional \$287 million in rate base had SCE&G passed the benefits of these tax credits on to shareowners as other electric utilities have done. Thus, ***I MOVE*** to approve SCE&G's request to use tax credits to offset expenses to reinforce the Lake Murray Dam.

PRESIDING	<u>Mitchell</u>			
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>	HAMILTON <u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY <u>Yes</u>
WRIGHT	<u>Wright</u>			

### Request for Proposal (RFP) for New Generating Capacity

***I MOVE*** the Commission establish a generic proceeding to explore a formal RFP process for utilities who are considering alternatives for additional generating capacity. Such a process would help ensure low cost power for South Carolina consumers in the future by requiring the state's regulated electric utilities to conduct a solicitation of outside sources before asking the Commission to site new power plants.

PRESIDING	<u>Mitchell</u>			
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>	HAMILTON <u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY <u>Yes</u>
WRIGHT	<u>Motion</u>			

### Result

The result of the Commission's decision is a revenue requirement of \$41,353,000 which is approximately 51 percent of SCE&G's original request of \$81,190,501, and 19 percent less than the revenue requirement arrived at in the Stipulation/Settlement Agreement. This is an overall increase in revenues of 2.89 percent, compared to the 5.66 percent per the original request and 3.56 percent per the Stipulation/Settlement Agreement. Rates for the residential class will increase 4.44 percent, and rates for the industrial class will increase 1.54 percent. Small industrial customers will have a 1.67 percent increase in rates, medium industrial customers will have a 2.53 percent increase in rates, and large industrial customers will have a 1.01 percent increase in rates. These rates are designed to bring all customer classes closer to their actual cost of service. Residential customers will still be paying a little less than their cost of service while industrial customers will be paying a little more than their cost of service. This decision meets the statutory requirement for just and reasonable rates and the opportunity for SCE&G to earn a fair rate of return and maintain a strong financial position.

***I MOVE*** that the Commission authorize its Chief Clerk, Mr. Charles Terreni, to prepare a synopsis of the Commission’s opinion, and to make this synopsis available to the public, the media and to be published on the Commission’s website. Further, Mr. Terreni will be available to provide you with information regarding the Commission’s decision on the SCE&G case and to explain the Commission’s new public information procedure in this hearing room at the conclusion of this meeting.

PRESIDING	<u>Mitchell</u>				
CLYBURN	<u>Yes</u>	FLEMING	<u>Yes</u>	HAMILTON	<u>Yes</u>
HOWARD	<u>Yes</u>	MITCHELL	<u>Yes</u>	MOSELEY	<u>Yes</u>
WRIGHT	<u>Motion</u>				

PRESIDING Mitchell

CLYBURN (See Commission Action)

FLEMING (See Commission Action)

HAMILTON (See Commission Action)

HOWARD (See Commission Action)

MITCHELL (See Commission Action)

MOSELEY (See Commission Action)

WRIGHT (See Commission Action)

REGULAR SESSION **X**

SPECIAL SESSION \_\_\_\_\_

TIME OF SESSION **10:30AM**

APPROVED \_\_\_\_\_

APPROVED STC 30 DAYS \_\_\_\_\_

ACCEPTED FOR FILING \_\_\_\_\_

DENIED \_\_\_\_\_

AMENDED \_\_\_\_\_

TRANSFERRED \_\_\_\_\_

SUSPENDED \_\_\_\_\_

CANCELED \_\_\_\_\_

SET FOR HEARING \_\_\_\_\_

ADVISED \_\_\_\_\_

CARRIED OVER \_\_\_\_\_

RECORDED BY P. D. Riley